MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016 / 2017 SESSION

DAU5028 – AUDITING 2

(For Diploma Students Only)

10 MARCH 2017
9.00 a.m - 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **5** pages with **5** questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

You are an audit manager of Willy & Co, an audit firm located in Petaling Jaya, Selangor. You are currently planning the financial statement audit of Darby Sdn Bhd (Darby), a financial institution which provides various financial services to consumer such as investment, insurance, and loans. Your firm has audited Darby for three years and the company's year-end is 31st December 2015.

Due to health problem, the accountant of Darby decided to have early retirement and left the company on August 2015. The company was only able to hire a new accountant one month after the year end. The finance directors , who is the brother-in-law of the audit engagement partner, has requested if a member of the audit team can be seconded to Darby for five months to act as temporary accountants.

You are aware that majority of the audit team members own savings account at Darby and two members have significant loans owing to the company. Other than that, Willy's taxation department also provides taxation services to Darby. They have been approached by Darby to represent them in negotiations to resolve an issue with the Inland Revenue Board (IRB), for which the tax fees quoted, is substantial.

The Chief Executive Officer (CEO) of Darby has informed the audit engagement partner that once the audit is completed, he would like to invite the whole team of audit team member to attend the company luxury staff retreat that will be held in Krabi, Thailand. All expenses including flight ticket and accommodation will be paid by the company.

Based on the information above:

Identify and explain any **FOUR (4)** ethical threats which may affect the independence of Willy & Co. audit of Darby Sdn Bhd. For each threat, explain how you will deal with the situation above to avoid or to reduce the risk to an acceptable level.

(Note: Please use the table format as presented below to write your answer)

No	Types of ethical threat	Issue	How to avoid or to reduce the risk?
1.			
2.			
3.			
4.			

(20 Marks)

[TOTAL 20 MARKS]

Continued...

QUESTION 2

(a) (i) Define related party and list out **FOUR (4)** examples of related party that a company may have. **(10 Marks)**

(ii) What is the responsibility of an auditor regarding the related party and related party transaction of the client during financial statements audit? **(4 Marks)**

(b) "The Malaysian Approved Standards on Auditing (AI 600) provides guidance when an auditor, reporting on the financial statements of an entity, uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity."

Required:

State **THREE (3)** audit procedures that the principal auditor should perform when planning to use the work of another auditor. **(6 Marks)**

[TOTAL 20 MARKS]

QUESTION 3

PART A

Explain the purpose of each the following documents involved in revenue cycle:

(i) Customer sales order
(ii) Credit approval form
(iii) Shipping document
(iv) Sales invoice
(v) Account receivables subsidiary ledger

(10 Marks)

PART B

(a) List **TWO (2)** asset accounts, **TWO (2)** liability accounts and **TWO (2)** expense accounts included in purchasing cycle for a typical manufacturing company. **(6 Marks)**

(b) Explain the following main functions involved in purchasing cycle as per below:

(i) Purchasing function **(2 Marks)**
(ii) Receiving function **(2 Marks)**

[TOTAL 20 MARKS]

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QUESTION 4

(a) "Most companies maintain a petty cash fund for paying certain types of expenses or transaction in the company. Even though the balance in the fund is not material, there is potential of employee fraud because employee in the company may be able to process numerous fraudulent transactions through the fund over the course of a year. Auditor seldom performs a detailed substantive testing of the petty cash fund, except when fraud is suspected. However, auditor may document the internal controls over the petty cash fund, especially for smaller clients."

Required:

Suggest any **FIVE (5)** examples of internal control procedure that is applicable for petty cash fund. **(5 Marks)**

(b) Carlo Lilo Berhad (Carlo) manufactures custom made furniture and its year end is 31 December. The company purchases its raw materials from various suppliers around Malaysia. Below is a description of Carlo's purchasing system.

When production supervisors require raw materials, they complete a purchase requisition form and this is submitted to the purchase ordering department. Purchase requisition forms do not require authorisation and no reference is made to the current inventory levels of the materials being requested. Staff in the purchase ordering department use the purchase requisitions form to raise sequentially pre-numbered purchase orders based on the approved suppliers list, which was last updated 24 months ago. The purchasing director authorises the orders prior to these being sent to the suppliers.

All goods received from the supplier will be handled by purchasing manager. When the goods are received in the warehouse, the purchasing manager verifies the quantity to the supplier's delivery order form and checks that the quality of the goods received are satisfactory. The purchasing manager will fill up the details of good received in sequentially pre-numbered receiving report and send a copy of the report to the finance department.

Purchase invoices are sent directly to the purchase ledger clerk, who stores them in a manual file until the end of each week. He then inputs them into the purchase ledger using batch controls and gives each invoice a unique number based on the supplier code. Each purchase invoice is match with delivery order form and a payment voucher will be prepared for payment process. Next, payment voucher will be reviewed and authorised by the finance director.

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Required:

As the external auditor of Carlo Lilo Berhad, identify and explain **FIVE (5)** weaknesses and its risk in the purchasing system. You need to suggest **ONE (1)** internal control for each.

(Note: You may use the table format as presented below to write your answer)

Weaknesses	Risk	Internal Control

(15 Marks)

[TOTAL 20 MARKS]

QUESTION 5

(a) In order to develop an overall audit plan, auditors have several types of tests that they can use to determine whether the financial statements are fairly stated. Differentiate the three categories of substantive tests as per below:

(i) Analytical procedures **(2 Marks)**
(ii) Substantive test of transactions **(2 Marks)**
(iii) Substantive test of account balances **(2 Marks)**

(b) You are assigned to conduct an audit at Vitafit Sdn Bhd, a company manufacturing vitamins and supplement for local pharmacy in Malaysia. The following are several audit procedures taken from an audit program for the company.

1. Examine vendor's invoices to verify the ending balances in account payable.
2. Compare the balance in payroll tax expense with previous years. The comparison takes the increase in payroll tax rates into account.
3. Discuss the duties of the cash payment clerk with him and observe whether he has the responsibility for handling cash and prepare the bank reconciliation.
4. Confirm account receivable balance directly with the customer.
5. Examine supplier's invoices and other documentation in support of recorded transactions in the purchase journal.
6. Examine the finance director's initials in monthly bank reconciliations as an indication of whether they have been reviewed.

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Required:

Identify whether each procedure is a test of control, substantive test of transactions, analytical procedure or substantive test of account balance.

(6 Marks)

(c) List out the audit procedures involved in testing the following assertion for loans payable.

(Note: You may use the table format as presented below to write your answer)

Assertion	Audit procedure
(i) Cut off	
(ii) Existence	
(iii) Rights and Obligations	
(iv) Completeness	

(8 Marks)

[TOTAL 20 MARKS]

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